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~~SECRET~~

Chief, Economic Research Area

31 July 1956

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Some Observations of Project 31.1086.

1. The recommendation of Acting Branch Chief, I/WA for publication of Project 31.1086 is supported by the writer.

2. The evidence supporting the conclusions reached in the paper is very thin. Nevertheless, it appears to be better evidence than that used to support earlier estimates of the size of the Chinese Munitions Industry. Taking the evidence and the methodology at face value, earlier estimates of the size of the Chinese Munitions Industry labor force are reduced by 50 percent or more.

3. If the project is evaluated as a methodological contribution, the most significant addition is the use of Chinese Nationalist value added data. There is a strong presumption in favor of the proposition that these data are more nearly analogous to Communist Chinese experience than US data. The Yuan-dollar conversion is a weak link but there appears to be no immediate prospect of strengthening the evidence at this point and the use of a range suggests the confidence we can have in the results. In summary, this proposed research aid appears to be a step -- albeit a short step -- in the direction of improved estimates in this field.

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